



AFRC PROFESSIONAL DEVELOPMENT COURSE

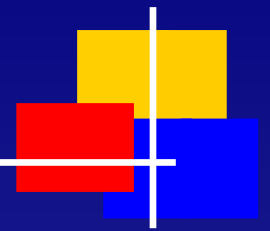


March 2002

 **PESYSTEMS, INC.**



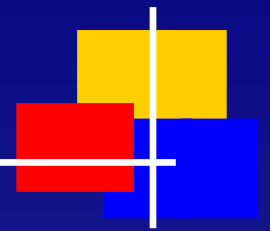
OBJECTIVES AND GOALS



- **Four modules, Six hours each**
- **Objectives**
 - Better able to deal with SPO's and Contractors
 - Understand how contractors are trained
- **Goals**
 - Improve Communications
 - Understand the "Art" of Business Development
 - Pass on Nuggets of Experience and Expertise



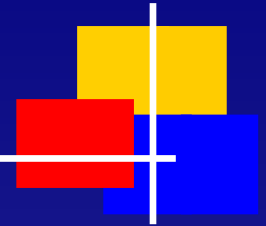
MODULES



- **Module #1 - Long Range Planning (Business Plan)**
- **Module #2 - Program Identification & Qualification**
- **Module #3 - Business Development/Proposals**
- **Module #4 - Managing the Operations or the Business**



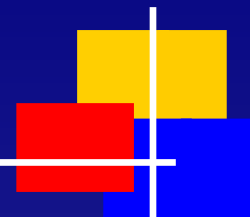
MODULE #1 LONG RANGE PLANNING (BUSINESS PLAN)



- **Small and Large Business**
- **Government and Commercial**
- **Public and Private and Not-for-Profit**
- **Existing and New**



ADMINISTRATIVE DETAILS

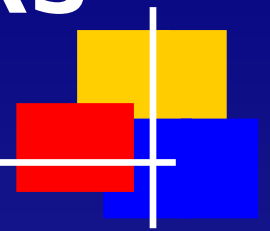


- **Breaks**
- **Lunch**
- **Phone Calls**
- **???**





WHO ARE THE FACILITATORS



Lee Puckett

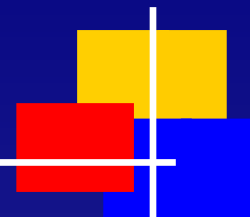
Paul Tofte

Larry Bogemann





COURSE OVERVIEW & RULES OF ENGAGEMENT



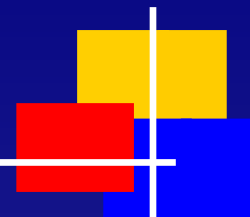
Overview



- **Goals**
- **Strategy**
- **Products**
- **Markets**
- **Budgets**



LEE PUCKETT

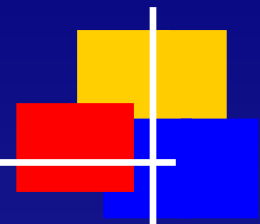


- **Air Force Experience (20 years)**
 - ALC Logistics
 - Simulator Engineering
 - Laboratory Management
 - Program Management

- **Industry Experience (17 years)**
 - Large Company
 - Small Company
 - Program Management
 - Operations and Site Management (P&L Responsibility)
 - V.P.
 - Program Management
 - Marketing
 - Program Development Management
 - Proposal Management



PAUL TOFTE

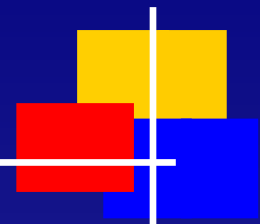


- **Air Force Experience (20 years)**
 - Computers, Avionics, and Logistics
 - Black World
 - Management and Engineering

- **Industry Experience (15 years)**
 - 15 years experience in Large/Government/Commercial/Public/Existing/Not-for-Profit
 - Business Development and Proposal Management
 - Project and Program Management
 - Site and General Management – V.P., Multi-site Operation
 - P&L Responsibility
 - IT Director



LARRY BOGEMANN



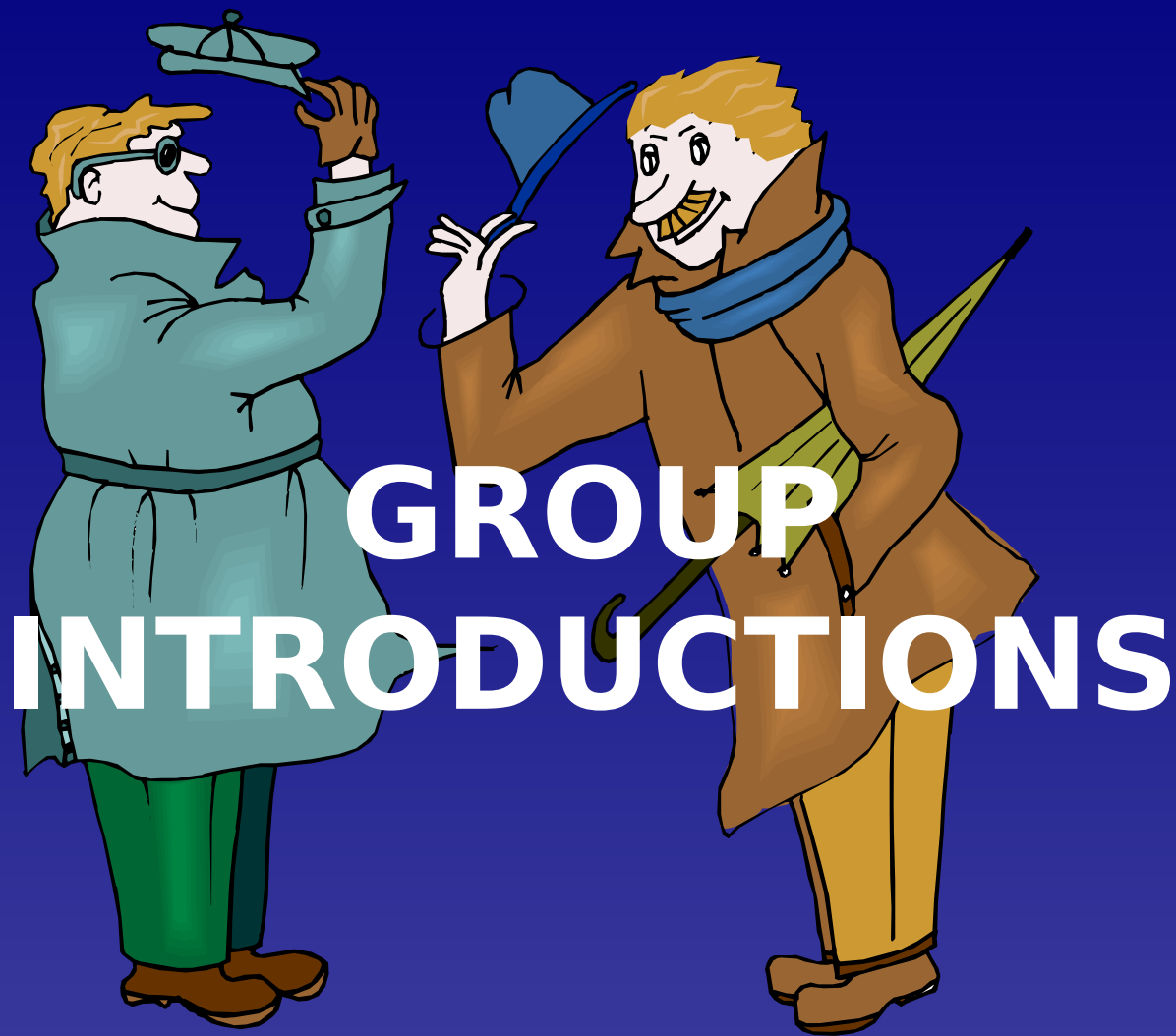
- **Air Force Experience (27+ years)**

- Program Management
- Test and Evaluation
- Operational
- Programming



- **Industry Experience (12+ years)**

- 12+ years Managing Small Businesses
- Business Development and Marketing
- Human Resources
- Contract Management
- Financial Management
- Operations and Site Management
 - V.P.
- P&L Responsibility



GROUP INTRODUCTIONS

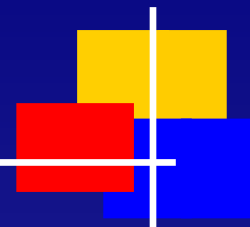


I. GOALS





VISION STATEMENT

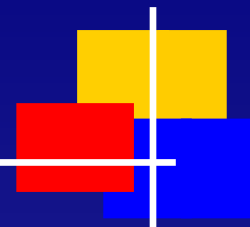


- **Vision statements are future oriented. They are a description of the future that the organization is striving to create.**



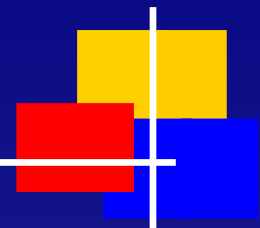


"I HAVE A VISION"

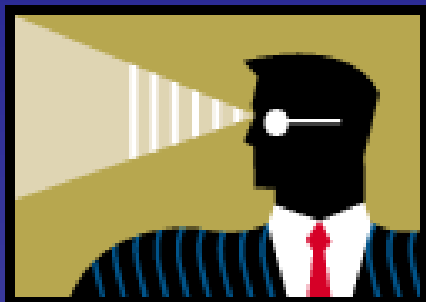




VISION

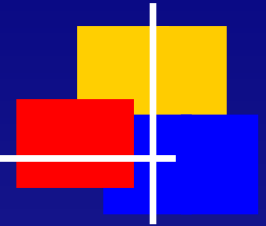


- **What is your existing company vision or what is the vision of your start up - your goals should be consistent with the vision**





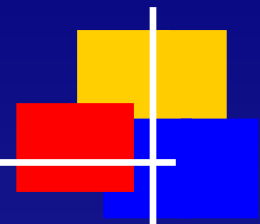
MISSION STATEMENT



- **Mission statements are used to describe the organization of today. Their purpose is to provide clarity and to help align the organization. Clarity as to who the organization is, what they do, and who they do it for. The language is crisp and concise and not burdened with superlatives. Ideally it also sets out the true strengths of the organization.**



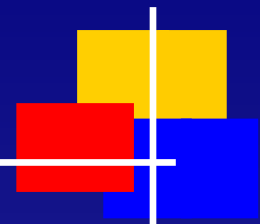
MISSION STATEMENT



- **What kind of work does the company do**
- **What kind of business do I want to be in**
- **What kind of business am I in**



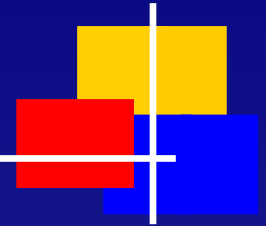
GOALS - MONETARY



- **How much money to make**
- **Returns on capital or investment**
- **Income needs--cash flow/operating**
- **Stay in business or get sold**
- **What are the companies' goals**
- **Risks:**
 - **i.e., fixed price vs. cost reimbursement**



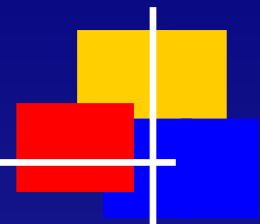
GOALS - GROWTH



- **How much growth each quarter, year, etc.**
- **What are the expectations of the company**
- **Decisions here may impact the kinds of work you can do**



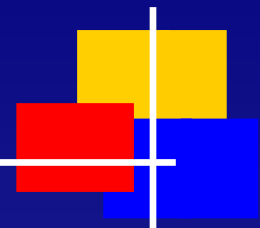
VALUES - ENVIRONMENT



- **Quality**
- **Ethical**
- **Family atmosphere**
- **Public vs. private**
- **People like to work there**
- **What sacrifices will you make here**



PRIORITY

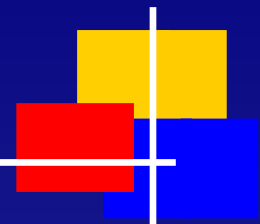


- Which goals are most important
- Monetary vs. growth vs. values





TIMING



- **How much money - how big - by when - cash flow**
- **What does the company expect**
- **When do you pursue growth**

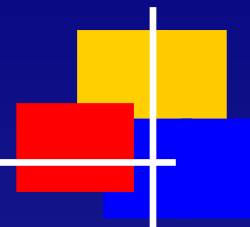


II. STRATEGY





STRATEGY

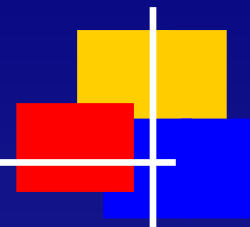


- To enter or stay in a market and to meet goals





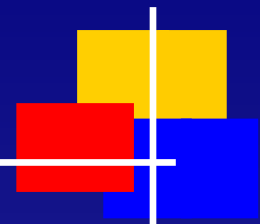
MARKET ENTRY



- **Teaming**
- **Produce more cheaply**
- **Quality**
- **Doing what someone else hasn't done yet**
- **Buy another company**



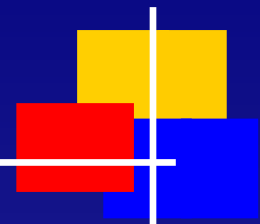
LOW COST



- **Cut overhead - reduce benefits - cost sharing**
- **Uncompensated overtime - longer work weeks**
- **Lower salaries**



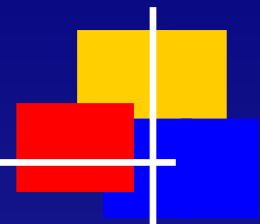
HIGH QUALITY



- **Do it better than anyone else**
- **Breakthroughs in process**
- **Does it justify higher costs**



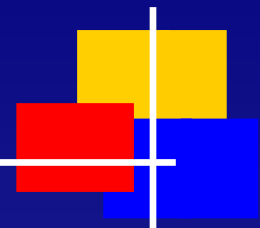
CUSTOMER SATISFACTION



- **How to measure it**
- **Customer wants you more than others**



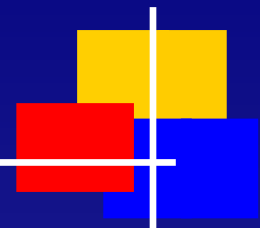
SELL EXISTING CUSTOMER



- **Get more business from an existing customer – new business without expending overhead**
- **Good sources for intelligence on other program you might be chasing**



HIRING THE RIGHT PERSON



- **Is there someone the customer wants**
- **Is there someone that bring lots of credibility**
- **Is there someone who knows what is needed or what will win**
- **Help get into a new market**

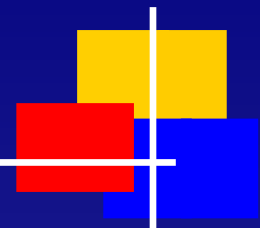


III. PRODUCTS - DEVELOPMENT OR SERVICES





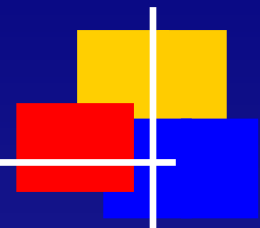
DEVELOPMENT OR SERVICES



- **Services are popular in DoD with small companies because they take less capital**
- **Hard work to develop products and produce them - usually takes facilities and equipment and people - new invention or manufacturing technique**



DEVELOPMENT OR SERVICES

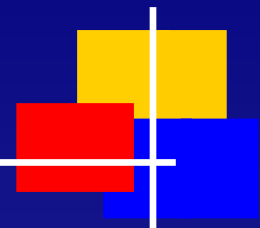


- **Development - building products**
 - Existing companies that do development - usually takes longer to chase and take more money as prototypes may be necessary
 - Be mindful of how long a large development contract might be in the works
 - Large software versus large hardware development
 - Shrink-wrap
 - Make lots on one program
 - Make less on several programs
 - Build products
 - Distribution, logistics support, warranty considerations





DEVELOPMENT OR SERVICES (Cont.)



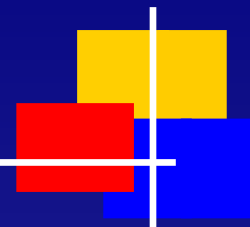
- **Services - services are easier as one can do them out of the experience you have**

- Engineering – professional
- Facility support
- “Blue Collar”
- On or off site
- Other places where you can do the same type of service work you are doing in your current locations





ANY NEW PRODUCTS?

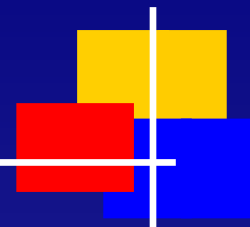


- **Market analysis**
- **Getting a new product to market**
- **Does the market exist sufficiently or must it be developed**
- **Marketing often gets the budget for prototypes of new products**
- **Logistics support, warranties, distribution**





IS THERE A MARKET? WHAT IS IT?



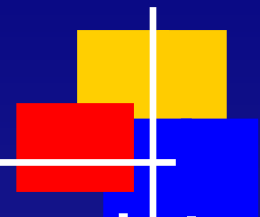
• **Do you need to make a market**

- **Describing the market in words and in terms of potential business**





TIMING



- **How long does it take to get a product to market**
- **How long does it take to chase a development program before there is a possibility of win**
- **How long does it take to chase a services contract**
- **Do I need special talents to chase a program and are they available when I need them**
- **When do you go after other markets - impact on existing business and cash flow**



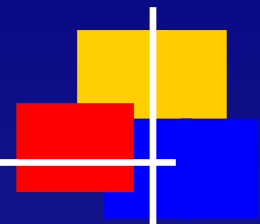


IV. MARKETS





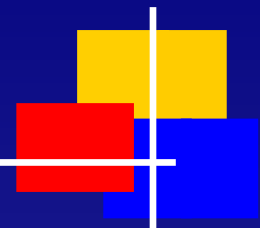
EXISTING COMPANIES vs. START-UPS



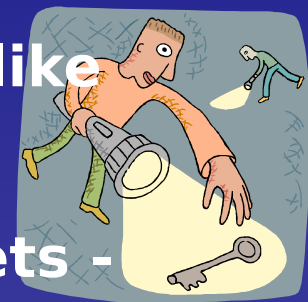
- Existing market strategies
- How do you penetrate a new market
- If a new business how do you get money to start - selling one's soul to the devil
- Does the company want to do new things - i.e., commercial vs. DoD



WHAT ARE THEY?

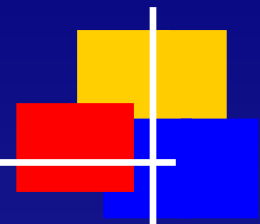


- Internal investigation of what company wants to do or does
- Doing market surveys
- Is there room in a market for you
- What can you do - what would you like to do
- Impact of venturing into new markets - internal sales
- Budget constraints





TIMING



- When do new programs come out
- Government funding cycles
- Government requirement cycle
- Company funding processes
- Company process versus customer
- Does the market have a “cycle” if so what is it and how does your budget cycle fit with it
- Typical market timing cycles



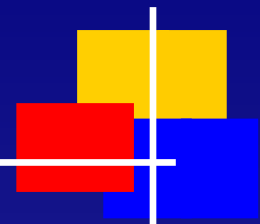


V. BUDGETS





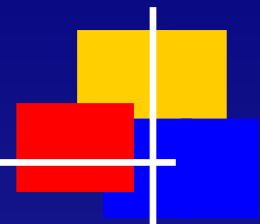
SUMMARY



- **Complex and difficult**
- **Lots to consider**
- **You are going to get exactly what you ask for, but numbers can be manipulated**
- **If you have questions, get help**



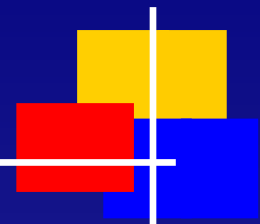
COST-SELL-MARGIN



- **Sell (price) is what you can sell something for - cost is what it cost you to produce it - margin is the difference**



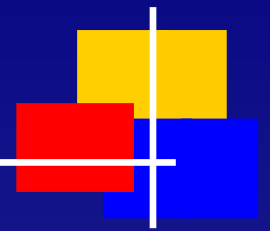
PRICE



- **Price to a customer for labor is made up of direct costs (salaries) plus overhead (benefits, business development costs, facilities, salaries of those persons not working directly on projects) plus G&A (proposal money, corporate salaries, research and development costs) and profit**
- **Price to a customer for ODC's (products, travel, per diem, etc.) is made up of actual cost plus G&A (proposal money, corporate salaries, research and development costs) or MH fee and profit. In many cases the Government does not allow profit on travel**



PRICE



Labor: $DL (1+OH) (1+G\&A) (1+ Profit) = Price$

Cost

Margin or Wrap

Material/Sub: $Cost (1+G\&A \text{ or } MH \text{ or } Sub Fee) (1+ Profit) = Price$

Rate

Margin

D.L. - Direct Labor

OH - Overhead

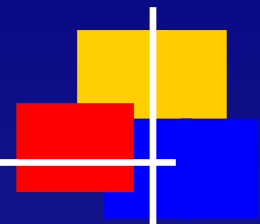
G&A - General & Accounting

MH - Material Handling

Sub Fee - Subcontract Fee



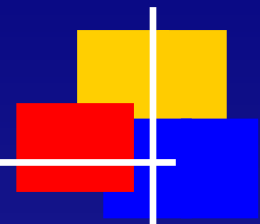
MULTIPLIERS



- **Combination of OH and G&A or M&H and profit**
- **Multiplier or wrap is obtained by multiplying $(1+OH)$ times $(1+G\&A)$ times $(1+profit)$. Usually only referred to in services contracts**



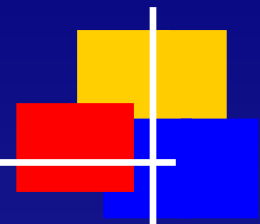
SALARIES (DL) - PART OF THE COSTS



- **Salaries of direct labor vary with types of labor, area of country, and how obtained (existing staff, labor surveys, etc.)**
- **Wage Determined (Service Contract Act) are established by the government for a particular area and contractor must pay the set rates or better**
- **Uncompensated overtime - Salary based on 45 to 50 hours per week, thereby producing a 20% reduction in hourly rate**



UNCOMPENSATED OVERTIME

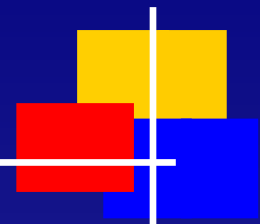


Example:

- **Salary -- \$62,400**
 Hourly Rate = \$30/Hr Based on 2080* hrs./yr.
 Hourly Rate = \$24/Hr Based on 2600** hrs./yr.
- **\$30/Hr X 80% = \$24/Hr** i.e. 20% reduction
- * 52 weeks X 40 hours/week = 2080 hours/year
- ** 52 weeks X 50 hours/week = 2600 hours/year



OH - PART OF THE COST



- **Fringe benefits - vacation, profit sharing, 401-K sharing, training, health care, taxes, social security, unemployment, etc.**
- **Company costs - indirect salaries (business development, marketing, also some companies may put division costs for personnel, contracts and other support costs here, required legal costs, facility costs like rent, mortgage, utilities, furniture, etc.**
- **OH rate equals OH pool divided by direct labor**
- **Varies with company - fringe and OH tracked separately, On site and Off site rates, type of business (dead time)**



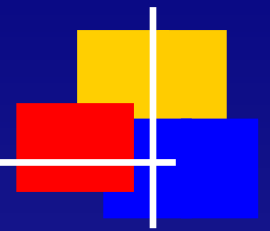
G&A - PART OF THE COST FOR SOME AND PART OF THE MARGIN FOR OTHERS



- **Corporate salaries - for some it is just executives and for others it is all corporate costs - if there are divisions their costs are usually in OH**
- **B&P - proposal writing costs - usually only those persons who normally charge direct to contract, charge to B&P for proposals**
- **Research and Development - IR&D for defense work**
- **G&A rate equals G&A pool divided by Overhead pool plus Direct Labor plus ODC's**



MATERIAL & HANDLING FEE - PART OF THE COST

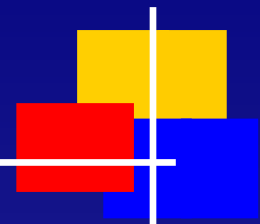


- **Costs for handling material such as purchasing and shipping. Also sometimes part of the contracts dept. if a subcontract fee is used instead of G&A**





PROFIT

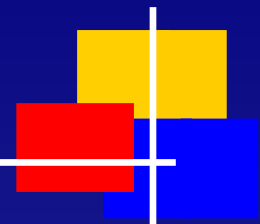


- **Government has established guidelines to preclude high profits**
- **Government can unilaterally claim funds because of excessive profits at contract closeout on any kind of contract**





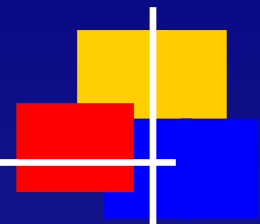
COST CENTERS



- **Companies may distribute the calculation of overhead and portions of G&A to divisions or departments in the company. These would be called cost centers as expenses and profits would be gathered at that level**



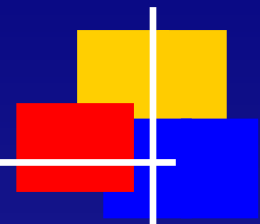
DIRECT/INDIRECT



- **Direct - charges against a contract by persons working on that contract accomplishing the work of that contract**
 - Software developers on a software project
 - Engineers on a services contract
 - Manufacturers on a development program
 - Management associated only with that specific contract



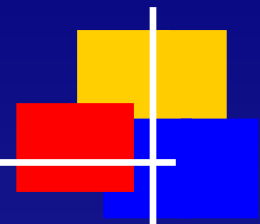
DIRECT/INDIRECT (Cont.)



- **Indirect – anyone who does not charge their time against a contract**
 - Administration, Human Resources, Security, Accounting, Contract Administration, etc.
 - Management associated with all contracts in a cost center



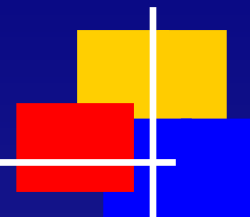
BURDENED RATES



- **Small Business**
 - Provisional Rates developed based on budgeted workload and cost for the upcoming year. DCAA approves for the year
 - Budgeted rates developed for each proposal. Usually requires an audit
 - Small pool base means workload projections must be good. A high workload projection to actual and the company does not recover their costs. A low workload projection to actual and the company has high rates and is not competitive



BURDENED RATE EFFECTS - Significant Base Change



Assumptions

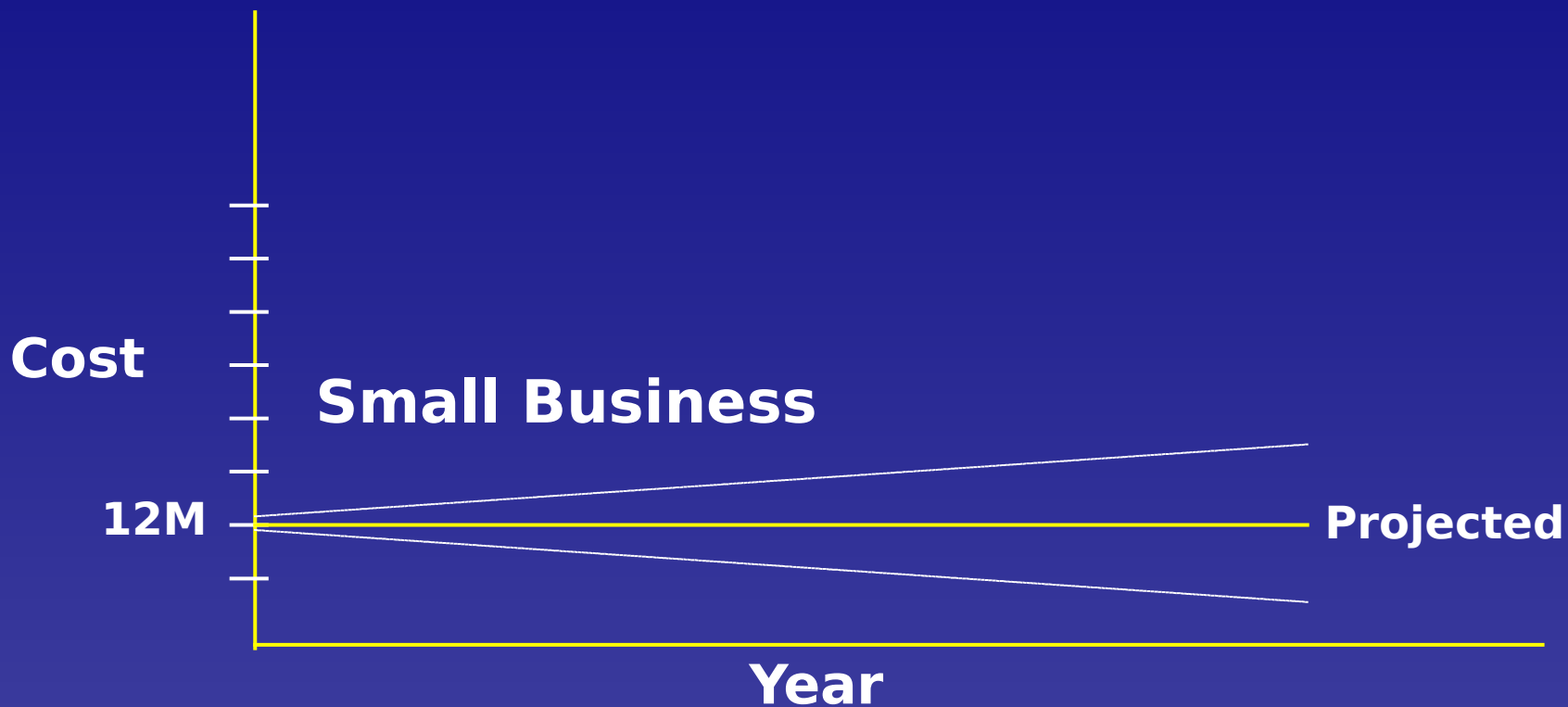
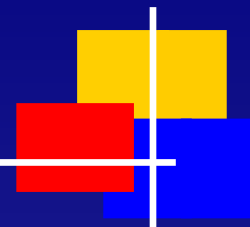
\$11.4M Revenues ($\frac{1}{2}$ Labor, $\frac{1}{2}$ Sub)

Lose \$400K in labor & \$500K in Sub - \$900K

	Before			After		
Cost	3.0M	4.5M	7.5M	2.69M	4.0M	6.69M
Fringe (30%)	0.9M	--	0.9M	0.81M	--	0.81M
O/H (20%/?)	0.6M	--	0.6M	0.6M (-.06)	--	0.6M
G&A (20%/?)	0.9M	0.9M	1.8M	0.9M (-.08)	0.9 (-.1)	1.8M
Profit (5.5%/?)	0.3M	0.3M	0.6M	0.13 (-.03)	0.17 (-.03)	0.3M
	5.7M	5.7M	11.4M	5.13M	5.07M	10.2M

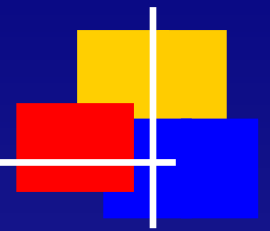


BURDENED RATE EFFECTS





BURDENED RATE EFFECTS



DL -- 600K

OH Pool -- 300K

Sub/ODC's -- 700K

G&A Pool -- 200K

$$\text{OH Rate} = \frac{300}{600} = 50\%$$

$$\text{G\&A Rate} = \frac{200}{1600} = 12.5\%$$

Wrap w/o fee = 1.69 Wrap w/ 10% fee =
1.86

ADD 1 Indirect person @ 100K/yr cost

OH Pool - 400K

G&A Cost Basis - 1700K

Wrap w/o fee = 1.86

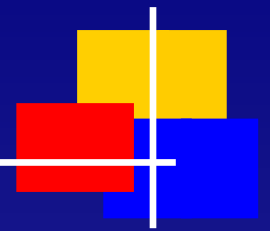
Wrap w/ fee = 2.05

$$\text{OH Rate} = \frac{400}{600} = 66.7\%$$

$$\text{G\&A Rate} = \frac{200}{1700} = 11.8\%$$



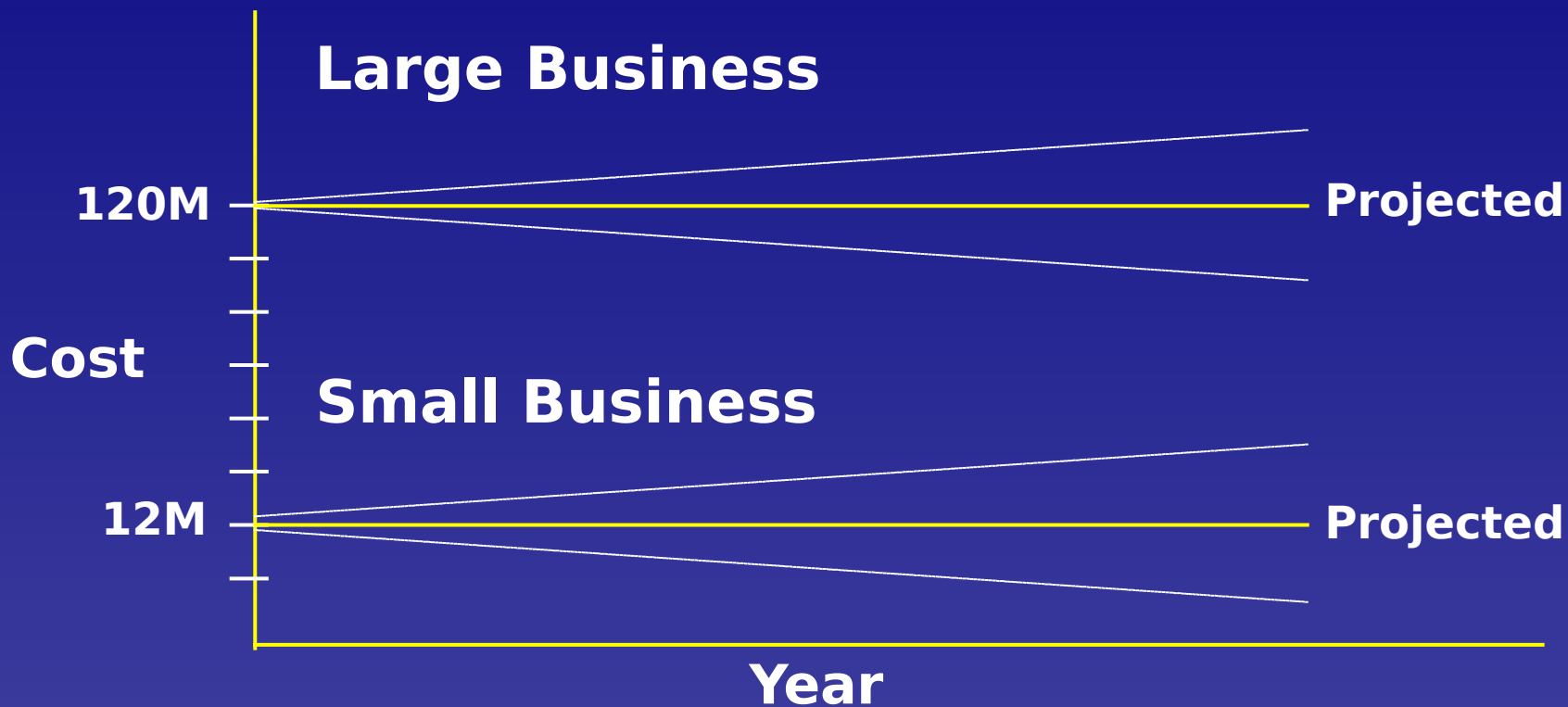
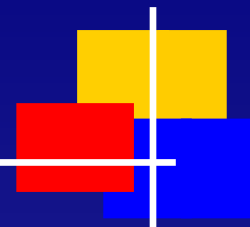
BURDENED RATES (Cont.)



- **Large Business**
 - Have solid history with large base, therefore can put together 5-year projections
 - G&A and OH do not vary substantially. Program losses are because labor hour projections were bad

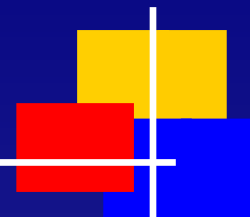


BURDENED RATE EFFECTS





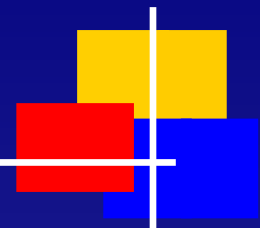
BURDENED RATES (Cont.)



- **Accounting system**
- **Bookings**



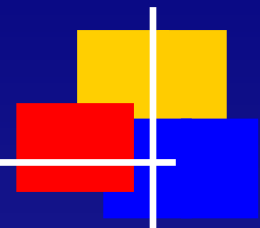
UNALLOWABLE COSTS - COMES OUT OF PROFIT



- Interest, entertainment, some insurance, contributions, advertising, etc.



CASH FLOW

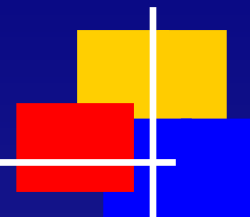


- **Government payment habitually slow – For a company with \$12M annual cost – Requires approx. \$500K LOC/month and \$3333/month of interest costs**
 - Three month delay – Requires \$1.5M LOC and will cost \$10K/month



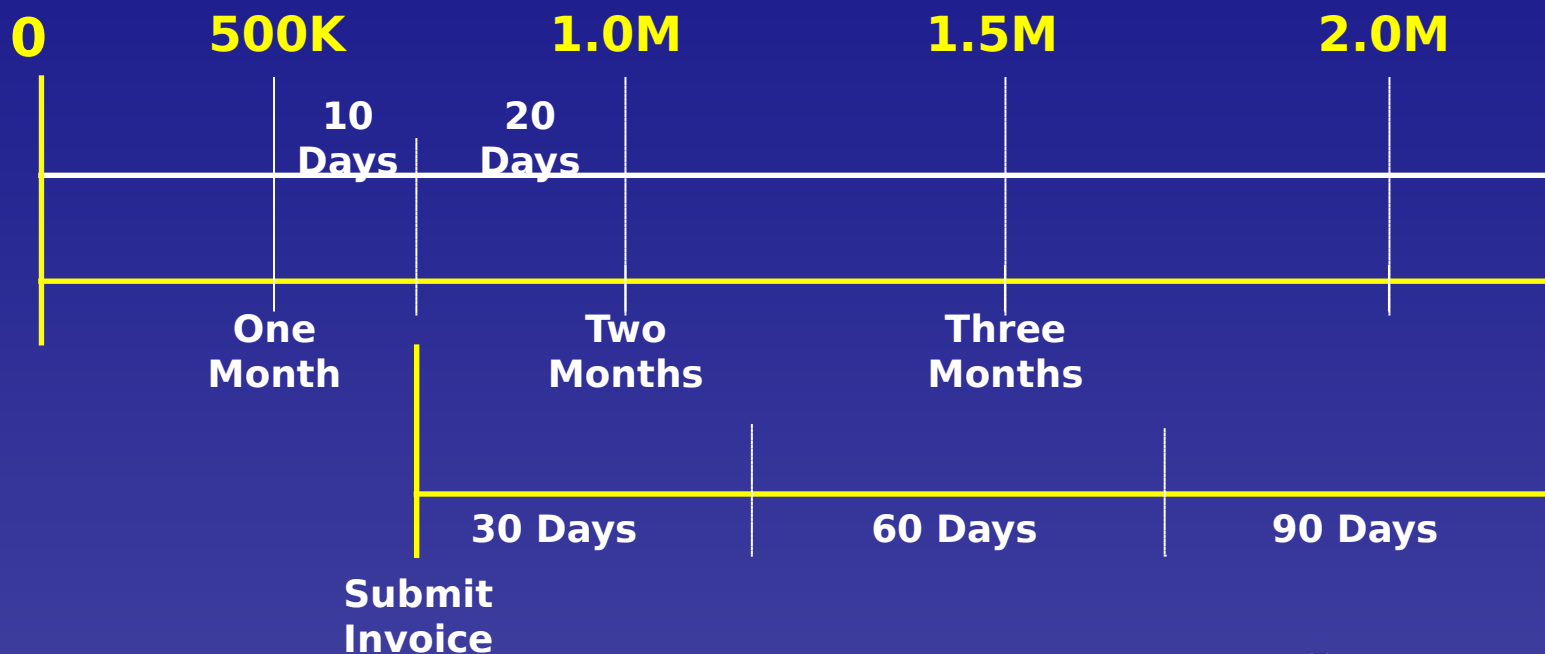


CASH FLOW



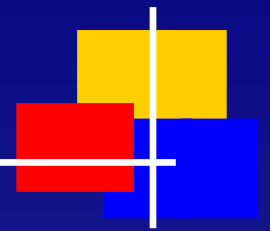
- **Assumptions**

- \$12M Annual Cost
- \$6M Subcontract / ODC's
- \$6M Direct Labor (\$500K DL cost/month)





SUMMARY



- **Complex and Difficult**
- **Lots to consider**
- **You are going to get exactly what you ask for, but numbers can be manipulated**
- **If you have questions, get help**